COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4324-03
Bill No.: SB 472
Subject: Tax Credits; Taxation and Revenue-Income; Revenue Department
Type: Original
Date: January 17, 2012

Bill Summary: This proposal modifies the provisions of certain tax credit programs and requires the Department of Revenue to apply any increase in revenue generated to a decrease in the corporate income tax rate.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
General Revenue*	$0	$0 to Unknown greater than $138,099,700	$0
Total Estimated Net Effect on General Revenue Fund	**$0**	**$0 to Unknown greater than $138,099,700**	**$0**

*Oversight assumes that over the life of the program the impact would net to zero.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Missouri Agricultural & Small Business Development Authority	$0	($154,139)	($154,139)
Total Estimated Net Effect on Other State Funds	**$0**	**($154,139)**	**($154,139)**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 14 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☐ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Section 99.1205 Distressed Area Land Assemblage Tax Credit
Oversight assumes this proposal changes the expiration date of the program from August 28, 2013 to August 28, 2012 (which is FY 13). However, since it is possible for the agency to issue all of the tax credits in FY 13 before this proposal prohibits any more being issued, Oversight will show the increased revenue to the State beginning in FY 2014. This program has a $20 million yearly cap so Oversight will show the increase revenue to the State as being $0 to the annual cap in FY 2014.

Section 135.155 New and Expanded Business Facility Tax Credit
Oversight assumes this tax credit was to expire on January 1, 2020. This proposal prohibits the authorization of any incentives as of August 28, 2012. However, since it is possible for the agency to issue all of the tax credits in FY 13 before this proposal prohibits any more being issued, Oversight will show the increased revenue to the State beginning in FY 2014. This program does not have an annual cap. In FY 2011, the tax credit issued $4,450,697 in credits and $5,682,965 were redeemed. **Oversight** for the fiscal note is showing the amount of increased revenue to the State as being equal to the average amount issued over the last five years.

Section 135.305 Wood Energy Tax Credit
Oversight assumes this proposal changes the expiration date of the program from June 30, 2013 to August 28, 2012, (which is FY 13). However, since it is possible for the agency to issue all of the tax credits in FY 13 before this proposal prohibits any more being issued, Oversight will show the increased revenue to the State beginning in FY 2014. This program does not have an annual cap. In FY 2011, the tax credit issued $3,269,364 in credits and $3,818,378 were redeemed. **Oversight** for the fiscal note is showing the amount of increased revenue to the State as being equal to the average amount issued over the last five years.

Sections 135.350 and 135.352 Low Income Housing Tax Credit
Officials at the **Missouri Housing Development Commission (MHDC)** assume that most of the impact from the changes proposed will be experienced outside the fiscal note period. The MOLIHTC is a 10 year credit, as a result, the full impact of the proposed reductions in tax credit issuances and redemptions will phase in starting in FY15 and will continue until FY24.

ASSUMPTION (continued)

FISCAL YEAR	MOLIHTC LONG RANGE POSITIVE IMPACT
FY 13	$0
FY 14	$0
FY 15	Unknown to $ 5,500,000
FY 16	Unknown to $14,250,000
FY 17	Unknown to $26,250,000
FY 18	Unknown to $41,500,000
FY 19	Unknown to $56,750,000
FY 20	Unknown to $72,000,000
FY 21	Unknown to $87,500,000
FY 22	Unknown to $102,500,000
FY 23	Unknown to $117,750,000
FY 24	Unknown to $133,000,000

Oversight assumes this proposal would limit the issuance of Missouri Low Income Housing Tax Credits to $110 million per year for projects authorized on or after July 1, 2012 that are financed without bonds. For each fiscal year thereafter there is a reduction in the cap. The tax credits could be carried back two years and carried forward five years.

This provision would limit the issuance of Missouri Low Income Housing Tax Credits to $20 million per year for projects authorized on or after July 1, 2012 that are financed with bonds. For each fiscal year thereafter there is a reduction in the cap. The tax credits could be carried back two years and carried forward five years.

Oversight notes that this provision, if enacted, would substantially reduce the issuance of Missouri Low Income Housing Tax Credits. Oversight also assumes that the reduction would begin to have an impact in FY 2014 since projects approved after June 30, 2012 would not result in tax credits issued until after the end of FY 2013. For fiscal note purposes, Oversight will indicate additional revenue from the reduction in tax credits greater than $5,000,000 per year for each fiscal year.

Oversight assumes this proposal prohibits the stacking of historic preservation tax credits with low-income housing tax credits. Therefore, Oversight assumes the proposed changes could result in a reduced amount of tax credits being issued in future fiscal years. Oversight will show a projected increase in net revenues as being Unknown.

ASSUMPTION (continued)

Section 135.484 Neighborhood Preservation Tax Credit
Oversight assumes this proposal stops the issuance of this tax credit on August 28, 2012. However, since it is possible for the agency to issue all of the tax credits in FY 13 before this proposal prohibits any more being issued, Oversight will show the increased revenue to the State beginning in FY 2014. This program has an annual cap of $16,000,000. In FY 2011, the tax credit issued $2,431,678 in credits and $4,427,639 were redeemed. Oversight for the fiscal note is showing the amount of increased revenue to the State as zero to the annual cap.

Section 135.535 Rebuilding Communities Tax Credit
Oversight assumes this proposal stops the issuance of this tax credit on August 28, 2012. However, since it is possible for the agency to issue all of the tax credits in FY 13 before this proposal prohibits any more being issued, Oversight will show the increased revenue to the State beginning in FY 2014. This program has an annual cap of $8 million. In FY 2011, the tax credit issued $1,444,107 in credits and $1,277,135 were redeemed. Oversight for the fiscal note is showing the amount of increased revenue to the State as zero to the annual cap**.**

Section 135.679 Qualified Beef Tax Credit
Oversight assumes this proposal changes the expiration date of the program from December 31, 2016 to December 31, 2012, (which is FY 13). However, since it is possible for the agency to issue all of the tax credits in FY 13 before this proposal prohibits any more being issued, Oversight will show the increased revenue to the State beginning in FY 2014. This program has an annual cap of $3 million. In FY 2011, the tax credit issued $29,482 in credits and $9,447 were redeemed. Oversight for the fiscal note is showing the amount of increased revenue to the State as zero to the annual cap.

Section 135.700 Wine and Grape Production Tax Credit
Oversight assumes this proposal stops the issuance of this tax credit on December 31, 2012, (which is FY 13). However, since it is possible for the agency to issue all of the tax credits in FY 13 before this proposal prohibits any more being issued, Oversight will show the increased revenue to the State beginning in FY 2014. This program does not have an annual cap. In FY 2011, the tax credit issued $90,014 in credits and $29,411 were redeemed. Oversight for the fiscal note is showing the amount of increased revenue to the State as being equal to the average amount issued over the last five years**.**

Section 135.750 Film Production Tax Credit
Oversight assumes this proposal changes the expiration date of the program from August 28, 2013 to August 28, 2012 (which is FY 13). However, since it is possible for the agency to issue

ASSUMPTION (continued)

all of the tax credits in FY 13 before this proposal prohibits any more being issued, Oversight will show the increased revenue to the State beginning in FY 2014. This program has an annual cap of $4.5 million. In FY 2011, the tax credit issued $1,807,030 in credits and $1,563,218 were redeemed. Oversight for the fiscal note is showing the amount of increased revenue to the State as zero to the annual cap.

Section 135.967 Enhanced Enterprise Zone Tax Credit
Oversight assumes this proposal stops the issuance of this tax credit August 28, 2012, (which is FY 13). However, since it is possible for the agency to issue all of the tax credits in FY 13 before this proposal prohibits any more being issued, Oversight will show the increased revenue to the State beginning in FY 2014. This program has an annual cap of $24 million. In FY 2011, the tax credit issued $6,853,727 in credits and $4,000,689 were redeemed. Oversight for the fiscal note is showing the amount of increased revenue to the State as zero to the annual cap.

Section 137.1018 Rolling Stock Tax Credit
Oversight assumes this proposal changes the expiration date of the program from August 28, 2014 to August28, 2012 (which is FY 13). This program has never issued any tax credits and therefore Oversight is showing no fiscal impact from this change.

Section 143.071 Corporate Tax Rate Change
Officials at the **Department of Revenue** assume that there is no fiscal impact from this proposal.

Officials at the **University of Missouri Economic & Policy Analysis Research Center** assume by inducing an increase in revenue through the reduction or elimination of tax credit authorizations then requiring an equivalent reduction in corporate income tax revenues through a reduction in the tax rate, it appears the author is attempting to neutralize revenue changes over several years. Unfortunately we are not able to estimate the impact a reduction in aggregate tax credit authorizations may have on any particular year's revenue due to the differential timing of credit authorization, credit issue, and credit redemption as it pertains to carry-over and/or carryback clauses within existing legislation. Without an estimation of this impact we are not able to simulate an equivalent reduction in revenue from a reduction in the corporate income tax rate.

Oversight assumes this proposal has DOR beginning on July 1, 2013, calculating the amount of revenue generated from the tax credits expiring. Then on January 1, 2014, DOR is to reduce the corporate tax rate by an amount equal to the revenue generated from the tax credits expiring.

ASSUMPTION (continued)

Oversight assumes that the reduction in the corporate tax rate would affect the corporations filings beginning January 1, 2015. While many corporations may file quarterly estimates in calendar year 2014 the effect of this reduction of the corporate tax rate would affect the final tax filing of the corporations in 2015.

Oversight will show the reduction in the corporate tax rate as the amount of savings generated in the previous fiscal year. Oversight assumes that over the life of the program the impact would net to zero.

Sections 253.550, 253.557 and 253.559 Historic Preservation Tax Credit
Officials at the **Department of Economic Development** and the **Department of Natural Resources** assume that there is no fiscal impact from this proposal.

Officials at the **Department of Economic Development** assume this proposal lowers the current cap of $140 million to $80 million in FY 2013, $60 million in FY 2014 and $40 million in FY 2015.

Oversight assumes this proposal, beginning in FY 2013, would lower the cap and not allow the issuing of more than eighty million dollars in historic preservation tax credits in the first fiscal year. Oversight will show the increase in net revenues as zero to the decreased cap amount each fiscal year.

Section 348.430 Agricultural Product Utilization Contributor Tax Credit
Oversight assumes this proposal stops the issuance of this tax credit on December 31, 2012, (which is FY 13). However, since it is possible for the agency to issue all of the tax credits in FY 13 before this proposal prohibits any more being issued, Oversight will show the increased revenue to the State beginning in FY 2014. This program has an annual cap of $6 million. In FY 2011, the tax credit issued $1,362,230 in credits and $472,023 were redeemed. Oversight for the fiscal note is showing the amount of increased revenue to the State as zero to the annual cap.

Section 348.432 New Generation Cooperative Incentive Tax Credit
Oversight assumes this proposal stops the issuance of this tax credit on December 31, 2012, (which is FY 13). However, since it is possible for the agency to issue all of the tax credits in FY 13 before this proposal prohibits any more being issued, Oversight will show the increased revenue to the State beginning in FY 2014. This program has an annual cap of $6 million. In FY 2011, the tax credit issued $360,000 in credits and $1,984,424 were redeemed. Oversight for the fiscal note is showing the amount of increased revenue to the State as zero to the annual cap.

ASSUMPTION (continued)

Section 348.505 Family Farm Breeding Livestock Tax Credit
Oversight assumes this proposal stops the issuance of this tax credit August 28, 2012, (which is FY 13). However, since it is possible for the agency to issue all of the tax credits in FY 13 before this proposal prohibits any more being issued, Oversight will show the increased revenue to the State beginning in FY 2014. This program has an annual cap of $300,000. In FY 2011, the tax credit issued $35,226 in credits and $49,825 were redeemed. Oversight for the fiscal note is showing the amount of increased revenue to the State as zero to the annual cap**.**

Section 447.708 Brownfield Jobs and Investment Tax Credit
Oversight assumes this proposal stops the issuance of this tax credit on August 28, 2012, (which is FY 13). However, since it is possible for the agency to issue all of the tax credits in FY 13 before this proposal prohibits any more being issued, Oversight will show the increased revenue to the State beginning in FY 2014. This program does not have an annual cap. In FY 2011, the tax credit issued $3,378,740 in credits and $1,620,384 were redeemed. Oversight for the fiscal note is showing the amount of increased revenue to the State as being equal to the average amount issued over the last five years**.**

Section 620.1910 Manufacturing Jobs Act
Officials at the **Department of Economic Development** assume that there is no fiscal impact from this proposal.

Oversight assumes this proposal stops the retained withholdings under this program on August 28, 2012, (which is FY 13). However, since it is possible for the agency to issue all the cap of the retained withholdings in FY 13 before this proposal prohibits any more being issued, Oversight will show the increased revenue to the State beginning in FY 2014. This program has an annual cap of $15 million. Oversight for the fiscal note is showing the amount of increased revenue to the State as zero to the retained withholding cap.

Section 135.313 Charcoal Producer Tax Credit Repealed
Oversight assumes no impact from this proposal as no new tax credits have been issued since December 31, 2005.

BILL AS A WHOLE
Officials at the **Budget and Planning** assume that to the extent DOR is able to estimate the changes in revenues and estimate the adjusted tax rates, this proposal should have little net impact on General and Total State Revenue.

ASSUMPTION (continued)

Officials at the **Department of Agriculture** assume this legislation would eliminate the Qualified Beef Tax Credit Program, the Family Farm Breeding Livestock Tax Credit Program, the New Generation Cooperative Incentive Tax Credit Program, and the Ag Product Utilization Tax Credit Program. The average revenues generated for MASBDA for these four programs over the past four fiscal years is $154,139 and therefore project that MASBDA will lose this much revenue on average for all future fiscal years if this legislation is enacted

Officials at the **Department of Health and Senior Services**, **Department of Social Services**, **Joint Committee on Administrative Rules** and the **Department of Revenue** assume that there is no fiscal impact from this proposal.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration** (**DIFP**) state it is unknown how many insurance companies will choose to participate in this program and take advantage of the tax credits. The department has no means to arrive at a reasonable estimate of loss in premium tax revenue as a result of tax credits. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts through out the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted by tax credits each year.

Officials at the **Department of Economic Development** (**DED**) assume this proposed legislation sunsets several tax credit programs listed in the table below under the administration of the DED's Division of Business and Community Services. DED assumes an unknown positive fiscal impact over $100,000 as a result of the proposed legislation. DED anticipates a positive fiscal impact as a result of the sunset of the specified programs. However, the exact amount of the positive impact is unknown due to the uncertainty as to the amount of tax credits that would otherwise be authorized and subsequently redeemed under the sunset/eliminated programs in any subsequent fiscal year.

The potential positive fiscal impact from the sunset of tax credit programs in this proposal is shown below based on estimates of the range of potential positive fiscal impact, with the high end of the range represented by the applicable program cap and the low end represented by the average annual authorizations of tax credits under the applicable programs for fiscal years 2008 through 2010. This range reflects the fact although in any fiscal years there is the potential for tax credit authorizations under these programs up to the applicable cap, the actual authorizations

ASSUMPTION (continued)

are often less than the cap amount. Relating to programs where a sunset provision is authorized, DED assumes that tax credits previously authorized or issued under any program with a carry forward provision would continue to be redeemed under these programs, notwithstanding the sunset on the agency's authority to authorize new tax credits.

Tax Credit Programs to Sunset	Authorization	Effective Date of Sunset	Savings Based on Average Authorizations (FY08-FY10)	Maximum Savings Based on Current Statutory Annual Cap
Distressed Area Land Assemblage	99.1205	August 28, 2012	$0	$20,000,000
New and Expanded Business Facility	135.155	August 28, 2012	$5,083,839	Unknown (program uncapped)
Neighborhood Preservation	135.484	August 28, 2012	$12,223,176	$16,000,000
Rebuilding Communities	135.535	August 28, 2012	$1,697,588	$8,000,000
Wine Producers and Grape Growers	135.700	December 31, 2012	$121,384	Unknown (program uncapped)
Film Production	135.750	August 28, 2012	$3,180,914	$4,500,000
Enhanced Enterprise Zone	135.967	August 28, 2012	$11,594,352	$24,000,000
Brownfield Jobs and Investment Act	447.708	August 28, 2012	$100,000	Unknown (program uncapped)
Total Amount			**34,001,253**	**Unknown - $72,500,000**

Officials from the **Office of the Secretary of State** (**SOS**) state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than $2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a

ASSUMPTION (continued)

review of the finally approved bills signed by the governor.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

Oversight assumes the many programs and changes to existing programs in this proposal may have an impact on the state. However, Oversight considers this to be indirect impact of the proposal and will not reflect them in the fiscal note.

FISCAL IMPACT - State Government	FY 2013 (10 Mo.)	FY 2014	FY 2015
GENERAL REVENUE			
Revenue Increase- stopping the tax credit or lowering its cap			
Distressed Area Land- tax stop	$0	$0 to $20,000,000	$0
Business Facility- tax stop	$0	$4,618,831	$4,618,831
Wood Energy- tax stop	$0	$3,360,228	$3,360,228
Low Income Housing- cap change	$0	Greater than $5,000,000	Greater than $5,000,000
Neighborhood Preservation- tax stop	$0	$0 to $16,000,000	$0 to $16,000,000
Rebuilding Communities - tax stop	$0	$0 to $8,000,000	$0 to $8,000,000
Qualified Beef - tax stop	$0	$0 to $3,000,000	$0 to $3,000,000
Wine & Grape - tax stop	$0	$138,916	$138,916
Film Production - tax stop	$0	$0 to $4,500,000	$0 to $4,500,000
Enhanced Enterprise Zone - tax stop	$0	$0 to $24,000,000	$0 to $24,000,000
Historic Preservation -cap reduction	$0 to $60,000,000	$0 to $80,000,000	$0 to $100,000,000
Agricultural Product - tax stop	$0	$0 to $6,000,000	$0 to $6,000,000

New Generation - tax stop	$0	$0 to $6,000,000	$0 to $6,000,000
Family Farm Breeding - tax stop	$0	$0 to $300,00	$0 to $300,000
Brownfield- tax stop	$0	$2,181,725	$2,181,725
Manufacturing Jobs - withholding stop	$0	$0 to $15,000,000	$0 to $15,000,000
Prohibition of stacking tax credits	$0	Unknown	Unknown
Total Tax Credit Savings	$0 to $60,000,000	$0 to Unknown greater than $198,099,700	$0 to Unknown greater than $198,099,700
Revenue Reduction - change in corporate tax	$0	$0 to (Unknown greater than $60,000,000)	$0 to (Unknown greater than $198,099,700)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND*	**$0**	**$0 to Unknown greater than $138,099,700**	**$0**
MISSOURI AGRICULTURAL & SMALL BUSINESS DEVELOPMENT AUTHORITY FUNDS			
Loss - MASBDA Application fees	$0	($154,139)	($154,139)
ESTIMATED NET EFFECT ON MISSOURI AGRICULTURAL & SMALL BUSINESS DEVELOPMENT AUTHORITY FUNDS	**$0**	**($154,139)**	**($154,139)**

*Oversight assumes that over the life of the program the impact would net to zero.

FISCAL IMPACT - Local Government	FY 2013 (10 Mo.)	FY 2014	FY 2015
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This act modifies provisions of existing tax credit programs and requires the Department of Revenue to apply any increase in revenue generated from these modifications to a decrease in the corporate income tax rate. The Director of Revenue is required to accomplish this decrease in the corporate income tax rate by rule.

The act prohibits the authorization of further tax credits after August 28, 2012 under the following tax credit programs: the distressed areas land assemblage tax credit program, the business facility tax credit program, the wood energy producer tax credit program, the neighborhood preservation tax credit program, the rebuilding communities tax credit program, the film production tax credit program, the enhanced enterprise zone tax benefit program, the family farm breeding livestock loan tax credit, and the Brownfield redevelopment tax credit program. The act also repeals the rolling stock tax credit and the charcoal producers tax credit.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Budget and Planning
Department of Agriculture
Department of Economic Development
Department of Health and Senior Services
Department of Insurance, Financial Institutions and Professional Registration
Department of Revenue
Department of Social Services
Joint Committee on Administrative Rules
Office of the Secretary of State
University of Missouri Economic & Policy Analysis Research Center

Mickey Wilson

JH:LR:OD

Mickey Wilson, CPA
Director
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